

**HMN FINANCIAL, INC.**  
**RELATED PERSON TRANSACTION APPROVAL POLICY**

ADOPTED: MARCH 15, 2011

**TRANSACTIONS SUBJECT TO POLICY**

Any transaction, arrangement or relationship (including any indebtedness or guarantee of indebtedness) or any series of similar transactions, arrangements or relationships in which the Company (including its subsidiaries) is a participant and in which a Related Person has a direct or indirect interest is a “*Related Person Transaction*.” In order for the transaction, arrangement or relationship to be subject to this policy, there must be a financial aspect to the transaction, which may, for example, involve payments between the Company and the Related Person or otherwise providing value to one of the parties.

“*Related Persons*” include:

- all directors and executive officers of HMN Financial, Inc. or its subsidiaries (together the “*Company*”);
- any nominee for director;
- any immediate family member of a director, nominee for director or executive officer of the Company; and
- any holder of more than 5% of the Company’s common stock, or an immediate family of such holder.

“*Immediate family members*” include children, stepchildren, parents, stepparents, spouses, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law and any other person sharing the household of a director, nominee for director, executive officer or more than 5% shareholder (other than a tenant or employee).

An “*indirect*” interest of a Related Person in a transaction includes a Related Person serving as an officer or employee of, or being a significant investor or equity holder in, an entity that is a party to a transaction with the Company.

The following transactions are exempt from this policy:

- payment of compensation by the Company to a Related Person for the Related Person’s service to the Company in the capacity or capacities that give rise to the person’s status as a “*Related Person*,”
- transactions available to all employees or all shareholders of the Company on the same terms;
- any extension of credit by Home Federal Savings Bank (HFSB) in which a Related Person has a direct or indirect interest and which complies with the requirements of Regulation O (12 C.F.R. Part 215) and has been approved by either the HFSB board of directors or its loan committee; and
- transactions, which when aggregated with the amount of all other transactions between the Related Person and the Company, involve less than \$120,000 in a fiscal year.

**APPROVAL OR RATIFICATION PROCEDURES OF RELATED PERSON TRANSACTIONS**

The audit committee of the Company’s board of directors (the “*Committee*”) is to consider any proposed Related Person Transaction, and any such transaction is not to be commenced without the approval of the Committee. If a Related Person Transaction is identified after has commenced, it shall be brought to the Committee to be considered for ratification.

If an executive officer of the Company becomes aware of a Related Person Transaction that has not previously been approved under this policy:

- if it is pending or ongoing, it will be submitted to the Committee promptly and the Committee will consider the transaction in light of the standards of approval listed below. Based on this evaluation, the Committee will consider all options, including approval, ratification, amendment, denial or termination of the Related Person Transaction; and
- if the transaction is completed, the Committee will evaluate the transaction in accordance with the same standards to determine whether rescission of the transaction is appropriate and feasible.

If a Related Person Transaction is not submitted to the Committee prior to its commencement, the Committee will request that the Company's management seek to ascertain the reason the transaction was not previously submitted to the Committee for prior approval.

#### **STANDARDS FOR APPROVAL OF TRANSACTIONS**

The Committee will analyze the following factors, in addition to any other factors the Committee deems appropriate, in determining whether to approve a Related Person Transaction:

- whether the terms are fair to the Company;
- whether the transaction is material to the Company;
- the role the Related Person has played in arranging the Related Person Transaction;
- the structure of the Related Person Transaction; and
- the interests of all Related Persons in the Related Person Transaction.

A Related Person Transaction will only be approved by the Committee if the Committee determines that the Related Person Transaction is beneficial to the Company and the terms of the Related Person Transaction are fair to the Company.

#### **APPROVAL PROCESS**

The Committee may, in its sole discretion, approve, ratify or deny any Related Person Transaction. Approval or ratification of a Related Person Transaction may be conditioned upon the Company and the Related Person taking any or all of the following additional actions, or any other actions that the Committees deems appropriate:

- requiring the Related Person to resign from, or change position within, an entity that is involved in the Related Person Transaction with the Company;
- assuring that the Related Person will not be directly involved in negotiating the terms of the Related Person Transaction or in the ongoing relationship between the Company and the other persons or entities involved in the Related Person Transaction;
- limiting the duration or magnitude of the Related Person Transaction;
- requiring that information about the Related Person Transaction be documented and that reports reflecting the nature and amount of the Related Person Transaction be delivered to the Committee on a regular basis;
- requiring that the Company have the right to terminate the Related Person Transaction by giving a specified period of advance notice; or
- appointing a Company representative to monitor various aspects of the Related Person Transaction.